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SUBJ: UNDER SECRETARY RICHARDSON'S TALK WITH SHAH
(IRAN MILITARY EQUIPMENT PROGRAM--UNDER SECRETARY,
ASST SECY SISCO AND AMBASSADOR PRESENT)

1. SHAH OPENED BY DESCRIBING HIS DEVELOPMENT PLANS,
PARTICULARLY FOR KHUZISTAN PROVINCE, POINTING OUT ITS GREAT
POTENTIAL IN TERMS OF OIL, NATURAL GAS AND AGRI-BUSINESS.
HE HOPED TO INTEREST JAMES LINEN'S BANKING AND INDUSTRIAL
GROUP IN DEVELOPMENT OF AGRI-BUSINESS AND RELATED ACTIVITIES
DURING LINEN'S VISIT IN MAY. HE POINTED OUT KHUZISTAN STILL
COVETED BY IRAQ AND ARAB RADICALS WHO REFER TO IT AS
"ARABISTAN" AND CALL FOR ITS LIBERATION.

2. HE THEN DESCRIBED IN SOME DETAIL THREAT TO GULF POSED
BY RADICAL ARABS WITH SOVIET AID AND ENCOURAGEMENT AND FACT
THAT BURDEN OF DEFENSE OF PEACE AND STABILITY IN GULF FALLS
ENTIRELY ON IRAN. WHILE HE AND KING FAISAL SAW EYE TO EYE
RE THREAT, SAUDI ARABIA COULD CONTRIBUTE LITTLE MATERIAL
STRENGTH TO DEFENSE OF GULF AND INDEED IT WAS UP TO IRAN TO
EXTEND AID TO FAISAL WHICH SHAH WOULD CERTAINLY DO. AS TO
REMAINING MODERATE GULF STATES, KUWAIT VACILLATED BACK AND
FORTH IN ITS EFFORTS TO APPEASE IRAQ AND SMALLER SHEIKH-
DOMS WOULD ADD NOTHING TO DEFENSE OF GULF.

3. THIS, SHAH SAID, WAS WHY IRAN MUST URGENTLY DEVELOP AND
STRENGTHEN ITS FORCES. FORCES HE PLANNED WERE MODEST GIVEN
NATURE OF THREAT. FOR EXAMPLE, HE WOULD GO WITH M-47 TANK

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ETROFIT PROGRAM FOR NEXT FEW YEARS INSTEAD OF AT SAME TIME TRYING TO ACQUIRE FOLLOW-ON TANKS FOR M-47'S. THIS WOULD SAVE MUCH MONEY AND IN FEW YEARS HE MIGHT ACQUIRE FOLLOW-ON TANK, PERHAPS FROM BRITISH OR EVEN BY IRANIAN PRODUCTION FROM EXPANDED RETROFIT FACILITY. AT SAME TIME TO MINIMIZE SIZE OF HIS GROUND FORCES HE PLANNED TO MAINTAIN ONLY TERRITORIAL ROOPS ON PAKISTAN AND AFGHANISTAN BORDERS AND SMALL REGULAR FORCES ALONG SOVIET FRONTIER. EVEN SO, IRAQ WOULD STILL OUTNUMBER HIS SIX DIVISIONS AND HIS AIR FORCE AND, IF SYRIAN AIR FORCE ADDED TO THAT OF IRAQ, HE WOULD BE GREATLY OUTNUMBERED IN THE AIR. THIS WAS WHY HE MUST HAVE MINIMUM AIR FORCE BUILD-UP HE ENVISAGED: NAMELY, TWO SQDNS OF F-4 IN 1971; 4 ADDITIONAL SQDNS OF F-4 IN 1973-76; AND ADDITIONAL 130'S FOR NECESSARY MOBILITY AND PARATROOP AND AIRBORN CAPABILITY FOR DEFENSE OF GULF AREA. SHAH THEN SAID HE MUST KNOW EXACTLY WHERE HE STOOD WITH US ON CREDIT FOR MILITARY EQUIPMENT. HE WOULD LIKE TO OBTAIN MOST OF HIS EQUIPMENT FROM US BUT FINANCING WAS VERY DIFFICULTY PARTICULARLY SINCE IN ADDITION TO MILITARY PROGRAM HE MUST KEEP UP WITH HIS ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMS. THIS IS WHY HE HAD OFFERED TO TIE ALL PROCEEDS FROM ADDITIONAL OIL SALES IN US TO PURCHASE OF AMERICAN MILITARY AND CAPITAL EQUIPMENT. HE COULD NOT UNDERSTAND WHY WE DID NOT ACCEPT THIS OFFER BECAUSE, INSOFAR AS OTHER OIL PRODUCING STATES ARE CONCERNED, WE HAD PERFECT JUSTIFICATION FOR DOING SO SINCE HIS OFFER WAS UNIQUE. THIS WOULD ENABLE HIM TO PAY IN GOOD AMERICAN DOLLARS FOR MILITARY EQUIPMENT AND FMS CREDIT WOULD NOT BE NECESSARY. IF WE COULD NOT FIND WAYS TO COOPERATE IN FINANCING HIS OVER-ALL MILITARY PROGRAM DESIGNED TO DEFEND IRAN AND FREE WORLD INTERESTS IN GULF, HE WOULD HAVE TO LOOK ELSEWHERE FOR MUCH OF HIS EQUIPMENT. HOWEVER, HE DID WANT TO KEEP HIS AIR FORCE COMPLETELY EQUIPPED WITH AMERICAN AIRCRAFT AND BACK-UP ITEMS BECAUSE MULTIPLE SOURCES WOULD CREATE IMPOSSIBLE LOGISTICS, MAINTENANCE AND TRAINING PROBLEMS. THEREFORE HE MUST KNOW SOONEST EXACTLY WHAT WE ARE PREPARED TO DO RE CREDIT ARRANGEMENTS FOR HIS MILITARY PROGRAM, PARTICULARLY HIS AIR BUILD-UP, INCLUDING EVENTUALLY THE CARRY-ON PLANE FOR HIS F-5'S.

UNDER SECRETARY SAID WE FULLY APPRECIATE UNIQUE CONTRIBUTION IRAN CAN MAKE TO DEFENSE OF FREE WORLD INTERESTS IN

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GULF. HE THEN EXPLAINED IN SOME DETAIL OUR DIFFICULTIES RE SHAH'S OIL PROPOSAL, BUT SAID WE WOULD KEEP LOOKING TO SEE WHAT WE COULD DO FOR IRAN ON OIL. INSOFAR AS FINANCING MILITARY EQUIPMENT CONCERNED, HE ASSURED SHAH OF OUR EARNEST DESIRE TO DO EVERYTHING WE COULD WITHIN CONGRESSIONAL LIMITATIONS. ACCORDINGLY WE WERE READY TO EXAMINE WITH SHAH HIS MILITARY REQUIREMENTS WITH VIEW TO EXTENDING 1968 AGREEMENT TO PROVIDE FOR ACQUISITION OF EQUIPMENT NOT PRESENTLY ENVISIONED UNDER THAT AGREEMENT. UNDER SECRETARY SAID AMBASSADOR MACARTHUR AND GENERAL TWITCHELL STOOD READY TO LOOK AT THIS PROBLEM WITH SHAH'S PEOPLE. SHAH INDICATED GENERAL AGREEMENT AND MATTER WAS **LEFT FOR** FURTHER DISCUSSION IN MEETING UNDER SECRETARY WILL HAVE WITH PRIME MINISTER HOVEYDA, MEHDI SAMII (PLAN ORG DIRECTOR) AND GENERAL TOUFANIAN THIS AFTERNOON (APRIL 21).

5. ASST SECY SISCO ALSO BRIEFED SHAH ON HIS MIDDLE EAST TRIP WHICH WAS MUCH APPRECIATED WITH SHAH (A) AGREEING MORE DIRECT DIALOGUE WITH UAR AND ARABS USEFUL AND (B) EXPRESSING VIEW TIME WAS WORKING AGAINST **ISRAEL**.

GP-3

RICHARDSON